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January 15, 2003

Honorable Jerry Luke LeBlanc, Chairman
Performance Review Subcommittee of the
Joint Legislative Committee on the Budget
and Members of the Subcommittee
P.O. Box 44294
Baton Rouge, LA 70804

Re: Exceptional Performance and Efficiency Incentive Program
Proposal by the Department of Health and Hospitals,
Medical Vendor Program-Pharmacy Program

Dear Committee Members:

In accordance with Louisiana Revised Statute (R.S.) 39:87.5(D)(8), we have completed our analysis of the material and substantive accuracy of the proposal submitted by the Department of Health and Hospitals (DHH), Medical Vendor Program-Pharmacy Program for a financial reward based on the Exceptional Performance and Efficiency Incentive Program. DHH's proposal asks for \$14,000 in supplemental compensation for five individual employees based on monetary savings realized by the activities of the Pharmacy Rebate Program during fiscal year 2002.

Attachment 1 to this letter provides the results of our analysis and verification of the proposal (Attachment 2). In summary, we found the following:

- DHH requests \$14,000 in supplemental compensation for five individuals. The five individuals are University of New Orleans (UNO) employees. DHH contracts with UNO to operate its Pharmacy Rebate Program.

The proposal is materially accurate except for the following items:

- The Pharmacy Rebate Program received \$4,500 from Data Niche Associates during fiscal year 2002, not \$7,000 as stated in the proposal (page 3 of the proposal's attachment). In addition, the proposal does not mention that the program receives \$7,500 annually from Innovative Health Strategies for providing that company with claim information. Thus, the program actually received \$12,000 in fiscal year 2002 from the sale of claim information.

Honorable Jerry Luke LeBlanc, Chairman
Performance Review Subcommittee of the
Joint Legislative Committee on the Budget
and Members of the Subcommittee
January 15, 2003
Page 2

- The proposal (pages 3-4 of the proposal's attachment) discusses savings associated with the invoicing of J-Codes, supplemental rebates, and the re-invoicing of manufacturers because of underbilling issues. The time frames for these savings extend beyond fiscal year 2002, which is the subject fiscal year of the proposal.
- The fiscal year 2002 productivity figure presented in the proposal is overstated by 101% (page 6 of the proposal's attachment). The proposal states that overall staff productivity increased 245% from fiscal year 2001 to fiscal year 2002. However, we found that the increase was 144%.
- Of the \$104 million in rebates received from drug manufacturers during fiscal year 2002, approximately 2% (\$2 million) are due to the efforts of Pharmacy Rebate Program staff.
- In addition, we noted that the statement "... there is almost a 100% recovery rate on overpaid claims when they are identified during current quarter dispute resolution and claims evaluation." is confusing (page 3 of the proposal's attachment).

I hope this information is useful in your legislative decision-making. A copy of this information has been provided to DHH.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel G. Kyle". The signature is fluid and cursive, with the first name "Daniel" being the most prominent.

Daniel G. Kyle, CPA, CFE
Legislative Auditor

DGK/dl

Attachments

[DHHPP03]

Office of Legislative Auditor

Department of Health and Hospitals (DHH),

Medical Vendor Program-Pharmacy Program

Exceptional Performance and Efficiency Incentive Program

Louisiana Revised Statute (R.S.) 39:87.5(D)(4) requires the legislative auditor to verify the material and substantive accuracy of the information contained in a proposal submitted pursuant to the Exceptional Performance and Efficiency Incentive Program. R.S. 39:87.5(D) provides the types of performance to be achieved to qualify for a reward. A proposal may be based on monetary savings wherein an agency demonstrates that there has been a discernable reduction in funds expended by the agency in the accomplishment of a particular program, function or action.

The DHH Pharmacy Rebate Program bases its proposal (see Attachment 2) on monetary savings realized during fiscal year 2002. During fiscal year 2002, program staff identified \$3,075,492 in potential rebates from drug manufacturers, an increase of 144% from fiscal year 2001. Of the \$3,075,492 in potential rebates identified, \$2,326,516 was collected because of the efforts of program staff. According to the proposal, the savings realized by the Pharmacy Rebate Program reduced the overall cost of the Medicaid Program.

Proposed Reward Amount

DHH requests a total reward in the amount of \$14,000 for supplemental compensation for five individuals who contributed to the monetary savings realized by the Medicaid Vendor Pharmacy Program. State Civil Service Rule 6.16.3 states that to be eligible for any gainsharing program, an employee must have been employed in the agency, program, or activity during the period when efficiencies were realized and at the time that the reward is distributed.

DHH bases its proposal on monetary savings achieved in fiscal year 2002. The five individuals are employed by UNO, with which DHH contracts to operate the Pharmacy Rebate Program. Of these five employees:

- Two (Ms. Landry and Mr. Ross) were employed by UNO and worked in the Pharmacy Rebate Program during all of fiscal year 2002.
- One (Ms. Fornea) began employment with UNO in August 2001.
- Two (Ms. Meole and Mr. Fabre) began their employment with UNO during January 2002.
- According to the proposal (page 9 of the proposal's attachment), the reward amount would be disbursed as follows:

<u>Employee</u>	<u>Proposed Award Amount</u>
Katie Landry	\$5,000
Jason Ross	3,000
Amanda Fornea	3,000
Jennifer Meole	1,500
Travis Fabre	1,500
Total	<u><u>\$14,000</u></u>

Accuracy of Information in the Proposal

The proposal was materially accurate except for the following items:

- The statement “Since LAPRIMS implementation, the State now receives more than \$7000 annually by providing claim level detail quarterly to Data Niche Associates.” is inaccurate (page 3 of the proposal’s attachment). The Pharmacy Rebate Program received only \$4,500 from Data Niche Associates during fiscal year 2002. In addition, the proposal does not mention that the program receives \$7,500 annually from Innovative Health Strategies for providing that company with claim information. Thus, the program actually received \$12,000 in fiscal year 2002 from the sale of claim information.

The proposal (pages 3-4 of the proposal’s attachment) discusses savings associated with the invoicing of J-Codes, supplemental rebates, and the re-invoicing of manufacturers because of underbilling issues. The time frames for these savings extend beyond fiscal year 2002, which is the subject fiscal year of the proposal. For example, the time frame associated with the invoicing of J-Codes is January 1998 through September 2002 and program staff did not begin invoicing supplemental rebates until August 2002.

The productivity figure presented in the proposal is overstated by 101% (page 6 of the proposal’s attachment). The proposal states that overall staff productivity increased 245% from fiscal year 2001 to fiscal year 2002. In its proposal, DHH uses the dollar amount identified for recoupment through claims recovery with pharmacists and dispute resolution with drug manufacturers as its method of measuring staff productivity. The dollar amounts identified for recoupment increased by 144% from fiscal year 2001 to fiscal year 2002. The amount collected increased by over 98% from fiscal year 2001 to 2002.

- Of the \$104 million in rebates received from drug manufacturers during fiscal year 2002 (page 3 of the proposal), approximately 2% (\$2 million) are due to the efforts of Pharmacy Rebate Program staff. According to DHH officials, approximately \$102 million in rebates is recouped with no effort by the state

because of agreements between the Center for Medicaid and Medicare Services and drug manufacturers.

Other Issues

The statement “. . . there is almost a 100% recovery rate on overpaid claims when they are identified during current quarter dispute resolution and claims evaluation.” is confusing (page 3 of the proposal’s attachment). The term “overpaid claims” refers to pharmacists overbilling DHH for drugs covered by Medicaid. One function of the Pharmacy Rebate Program is to identify when pharmacists have overbilled and to collect the overpayment that DHH made.

This sentence in the proposal is confusing because of the context in which the term “current quarter” is used. According to program personnel, current quarter does not refer to the time frame in which overpayments have to be identified. Instead, it is more of a technical term that refers to the process program personnel and the drug manufacturers go through in reconciling claims. The time frame for identifying overpaid claims is actually one year. The year runs between the date that DHH paid the claim and the date that it is identified as overpaid. When a time frame of one year is used, we found that the recovery rate of overpaid claims exceeds 99.9%.

Attachment 2

Department of Health and Hospitals
Medical Vendor Program-Pharmacy Program

Proposal for Incentive Fund Reward
Based on Exceptional Performance

REWARD PROPOSAL BASED ON MONETARY SAVINGS

DEPARTMENT: **Department of Health and Hospitals** SCHEDULE:

AGENCY: Medical Vendor Program PROGRAM: Pharmacy Program

ACTIVITY: Louisiana Pharmacy Rebate Program

SUBJECT FISCAL YEAR: 2002

This proposal is for a reward based on monetary savings

This original document, plus seven copies, must be received by the Performance Review Subcommittee of the Joint Legislative Committee on the Budget by 5:00 p.m. on November 15th. The Subcommittee's physical address is 900 N. 3rd St., State Capitol, 11th Floor, Baton Rouge, LA 70802; the mailing address is P.O. Box 94486, Baton Rouge LA 70804; the e-mail address is "reade@legis.state.la.us".

Provide a brief summary of the proposal, noting whether this proposal is based on achievements of a particular activity which is a subset of a program, an entire program, multiple programs, or the entire agency. Include information about the reward requested and its proposed use. Please limit this description to about 125 words.

Application prepared by: M. J. Terrebonne Date: 11-12-2002

Signature H. J. Tennison

Agency head approval: **Ben Bearden** Date: **11-12-2002**

Signature Ignacio J. Jarama

Received by the Performance Review Subcommittee: Date:

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Sent to the Legislative Auditor Date:

Response from Legislative Auditor: Date:

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Disposition by Subcommittee: _____ Date: _____

REWARD PROPOSAL BASED ON MONETARY SAVINGS

PART ONE: ANALYSIS OF SAVINGS

Complete either Section I or Section II depending on the organizational level at which the subject activity occurred. *All proposers will complete Section III.*

I. If the activity, function, or action (the "subject activity") for which there were monetary savings is a component or subset of an AFS activity, expenditure organization, or equivalent, complete the following Items A, B, and C.

A. What were the annual available means of finance and estimated cost in the subject fiscal year of *executing the subject activity* PRIOR TO the implementation of the cost saving efforts?

Available Means of Finance \$908,411

Matched at 50/50 rate

Estimated Cost \$908,411

Estimated T.O. N/A

Provide a detailed explanation of how you arrived at the available means of finance and estimated cost amounts, including as much detail as you have available, and citing the specific sources used. It is understood that budget and expenditure data for functions at sub-AFS activity, sub-expenditure organization or equivalent levels may necessitate extrapolation of data reported at those levels. Data must be furnished at a level sufficient for the legislative auditor to review and verify. Cite the fiscal year from which these figures are taken. Provision of more information will afford reviewers the maximum insight into the circumstances upon which this proposal is based. The Estimated Cost was the same as our actual expenditure. The actual expenditure data is supported on Page 8 of the attached document in the Program Cost Data table. This costs reflects both the actual cost to the State of the Pharmacy Rebate portion of the UNO contract and the actual cost to the State for the LAPRIMS development contract with Unisys -TX which was not a recurring expenditure. The total cost for those two items equals the \$908,411 figure.

B. What were the total actual expenditures for the subject activity in the subject fiscal year? This will reflect the impact of the cost savings.

End-of-year actual Expenditures \$908,411

End-of-year actual T.O. N/A

SEE ATTACHED

REWARD PROPOSAL BASED ON MONETARY SAVINGS

- 1) *Provide a detailed explanation of how you arrived at the amount of actual expenditures, including as much detail as you have available, and citing the specific sources used. It is understood that budget and expenditure data for functions at sub-AFS activity, sub-expenditure organization or equivalent levels may necessitate extrapolation of data reported at higher levels.*

The actual expenditure data is supported on Page 8 of the attached document in the Program Cost Data table. This costs reflects both the actual cost to the State of the Pharmacy Rebate portion of the UNO contract and the actual cost to the State for the LAPRIMS development contract with Unisys -TX which was not a recurring expenditure. The total cost for those two items equals the \$908,411 figure.

On a larger scale, The Medicaid Pharmacy Program reimburses pharmacy providers for prescription drugs. During fiscal year 2002, expenditures were \$653,765,465 for 13,044,678 claims. Rebates received from drug manufacturers were \$104,570,549 resulting in a net expenditure of \$549.194,916.

The Federal Drug Rebate Program is federally mandated. The Department of Health and Human Services contracts with over 400 drug manufacturers which allows their drug products to be available for coverage in the Medicaid program. States are responsible for administering the rebate program for their state. In 1992, the Medicaid staff analyzed the staffing requirements needed to administer and operate the rebate program along with staff from the Office of Inspector General and Legislative Auditor. At the time, the Medicaid Program had a contract with the University of New Orleans for technical assistance and computer training. For various reasons including limited T.O., increased match rate with another state entity, technical expertise and the flexibility to hire specialized staff such as auditors and accountants, the Medicaid program amended the UNO contract to hire a programmer and two auditor/accountant staff. The pharmacy director, the programmer and the auditors developed and designed an automated program which allow for rebates to be posted on a National Drug Code basis for over 40,000 drugs. The final program was claimed as a national model and was shared with over twenty states.

In 2000, UNO experienced staff turnover and new staff was hired. An analysis and evaluation of the existing program was performed. As a result, the Department opted to enhance the current Texas rebate system. This new system has allowed the drug rebate staff to operate a state of the art program.

- 2) *If the savings in the subject activity have been absorbed into the budget to make up for other needs of the program, or if your budget has been reduced due to your achieved savings resulting in no material savings in the total program, AFS activity expenditure organization, or equivalent actual expenditures, briefly explain here.*

The Medical Vendor Payment Budget has been reduced by the increase recoupments and savings in the LAPRIMS Drug Rebate Program. This reduces the cost of the overall Medicaid Program.

REWARD PROPOSAL BASED ON MONETARY SAVINGS

C. Historical Information

Using the same methodology used to develop your responses to Items A and B above, provide the following historical information for the subject activity for no less than two years.

	FY:2001	FY:2002	FY:
Estimated cost at start of year	\$134,767	\$908,411	
End-of-year actual expenditures	\$134,767	\$908,411	
End-of-year actual T.O.			

Provide information with respect to the number of years your agency has performed the subject activity and also whether it is mandated by law. You may also include any other necessary explanatory notes.

- II. If the subject activity comprises an entire program, AFS activity, expenditure organization or equivalent, or more than one program, activity, expenditure organization, or equivalent, complete the following Items A, B, and C. (If more than one program, AFS activity, expenditure organization or equivalent budgetary entity is involved, attach a separate addendum to include all of the following questions with respect to each of the relevant entities):

A. What were the beginning appropriation or allocation and the end-of-year budget amounts for executing the subject activity PRIOR TO the implementation of the cost saving efforts?

Program, AFS activity, expenditure organization or equivalent identifier number:

####

Beginning allocation or appropriated amount:

\$\$\$\$

Beginning T.O.

####

End-of-year budget amount:

\$\$\$\$

This space may be used for explanation if the beginning appropriation allocation and the end-of-year budget amount are different.

B. What were the total actual expenditures for the subject activity in the subject fiscal year? This will reflect the impact of the cost savings.

End-of-year expenditures

REWARD PROPOSAL BASED ON MONETARY SAVINGS

End-of-year actual T.O. #####

- 1) *Provide a detailed explanation of how you arrived at the amount of actual expenditures, citing specific sources used.*
- 2) *If the savings in such activity, function, or action were absorbed into the budget to make up for other needs of the program, or if your budget was reduced due to your achieved savings resulting in no material savings in the total program, AFS activity, expenditure organization, or equivalent budget or actual expenditures, please briefly explain here.*

C. Historical Information:

Using the same methodology used to develop your responses in Items A and B above, provide the following historical information for this subject activity for no less than two years.

Name of AFS activity, expenditure organization equivalent:			
	FY	FY	FY
Beginning allocation or appropriation			
End-of-year allocation or appropriation			
End-of-year actual expenditures			
End-of-year actual T.O.			

Provide information with respect to the number of years your agency has performed the subject activity and also whether it is mandated by law. You may also include any other necessary explanatory notes.

III. Provide the following information for the PROGRAM (or AGENCY if the proposal relates to the activities of one or more programs) in which the subject activity is located for the subject year and the two preceding years.

Program (or agency):	Pharmacy Rebate Program		
	FY 2001	FY 2002	FY
Beginning appropriation	\$134,767	\$908,411	
End-of-year budget	\$134,767	\$908,411	
End-of-year actual expenditures	\$134,767	\$908,411	
End-of-year actual T.O.	N/a	N/a	

Notes:

REWARD PROPOSAL BASED ON MONETARY SAVINGS

REWARD PROPOSAL BASED ON MONETARY SAVINGS

PART TWO: ACTIONS OF EMPLOYEES

Provide a detailed explanation of the specific actions of employees which resulted in the agency, program, or equivalent expending less money than was available for the subject activity in the subject year. This must include the specific personnel and their contribution to the activities which resulted in the savings.

Use this space or attach a separate addendum.

SEE PART TWO OF ATTACHMENT

REWARD PROPOSAL BASED ON MONETARY SAVINGS

PART THREE: MAINTENANCE OF EXPECTED PERFORMANCE

Provide detailed performance data evidencing the maintenance of performance associated with the cost savings represented in your proposal. Be sure to note those specific performance indicators and standards which are particularly important. Provide any separate or narrative background information you deem necessary. *All proposers must complete Format 1. Format 2 is to be used to report additional data which is not captured in LaPAS.*

Using Format 1, list all objectives and performance indicators for the subject year and at least the immediately preceding year (three years of data is best) for the program (or equivalent) in which the subject activity occurred. Provide the performance standards from the enacted budget/LaPAS. For proposals based on activities which occur at the sub-program (or equivalent) level which are not directly reflected in the agency's LaPAS performance data, the data for the program (or equivalent) comprising such activity is *required*. In cases where multiple programs are involved, provide the performance data for the entire agency.

Format 1. Provide the LaPAS data using this format, attaching addenda as necessary.

Program (or agency):	SEE PART THREE OF ATTACHMENT					
Objective:						
	FY		FY		FY	
Performance Indicators	Standard	Actual	Standard	Actual	Standard	Actual

REWARD PROPOSAL BASED ON MONETARY SAVINGS

Use "Format 2" for instances where the agency's performance data in the enacted budget and LaPAS does not reflect the efforts and achievements associated with the activities forming the basis of your proposal. Provide clear and specific evidence of the establishment of an expected level of performance at the beginning of the fiscal year or before the cost saving activity was undertaken, which expectation could then be compared to actual achievements at year's end. Citation of specific source documents for this data is *required*.

Format 2.

Program (or agency):	SEE PART THREE OF ATTACHMENT					
	FY		FY		FY	
Performance Expectation	Standard	Actual	Standard	Actual	Standard	Actual

In this space describe the circumstances and process related to development of performance expectations presented in Format 2., including reference to specific source documentation.

SEE PART THREE OF ATTACHMENT

REWARD PROPOSAL BASED ON MONETARY SAVINGS

PART FOUR: EXPLANATION OF PROPOSED REWARD AND ITS USE

I. Aggregate amount of reward requested:

\$14,000

II. Explain how the proposed reward funding would be used, whether for nonrecurring expenditures or supplemental compensation, or both.

A. Non-recurring expenditures

Provide a synopsis of how the proposed reward would be used for nonrecurring expenditures.

B. Supplemental Compensation

Provide a synopsis of the supplemental compensation plan for use of this reward, and how it would specifically be distributed among the staff responsible for the achievements evidenced in this proposal as described in Part Two (See R.S. 39:87.5(D)(6)).

SEE PART FOUR OF ATTACHMENT

We recommend a reward of supplemental compensation based on the levels of contribution outlined below that support the achievement listed in parts two and three of this proposal.

Note: All proposals for supplemental compensation must be in compliance with rules of the Performance Review Subcommittee and the Department of State Civil Service.

Reward Proposal Based on Monetary Savings

Part I

Overview

This Pharmacy Rebate Program uses the Louisiana Pharmaceutical Rebate Information Management System (LAPRIMS) to track the invoicing and collection of rebates from pharmaceutical manufacturers (Labelers.) The invoices, generated quarterly, are based upon the quantities of drugs dispensed by Pharmacies (Providers) to eligible Medicaid recipients and paid for by a program within the Louisiana Department of Health and Hospitals (DHH).

Pharmacies bill claims to the State through our financial intermediary (Unisys). Unisys compiles this utilization data through an online Point-of-Sale system. Each month, the rebate division receives a data dump containing Claim, Formulary, Recipient and Provider data, and imports it into the LAPRIMS system. At the end of each quarter, we combine this data along with the appropriate rate information sent by CMS to produce an invoice to the drug manufacturer (labeler). As labelers make payments to the State, LAPRIMS provides for the allocation and reconciliation of those payments on a NDC by NDC basis. It is also used to log calls and track and resolve manufacturer disputed units.

Part 2

Actions of Employees

Pharmacy Rebate Employees:

Name	Title	Date Started	Gen'l Contribution
Katie Landry	Field Ops Spvsvr	7/2000	High
Jason Ross	Coordinator I	7/2001	Moderate - High
Amanda Fornea	Coordinator I	8/2001	Moderate - High
Jennifer Meole	Coordinator I	1/2002	Moderate
Travis Fabre	Coordinator I	1/2002	Moderate

Katie Landry began managing the UNO Pharmacy Rebate portion of the Title XIX contract with the State in July of 2000. The State contracts with the University of New Orleans to staff this function because a larger federal match can be obtained through use of the contract. In July of 2000, the division consisted of two employees primarily trying to keep up with posting rebate payments drug manufacturers made to the State in an antiquated software program. There were no procedures in place and the program was not actively managed. Katie developed a plan for the management and organization of the unit. In September of 2000, two student workers were hired to primarily post payments. This allowed the degreed auditors to spend more of their time focusing on dispute resolution. Dispute resolution with drug manufacturers and analysis of Pharmacy claims go hand in hand. This connection was never fully realized and taken advantage of until Katie's arrival in 2000. During dispute resolution, we are alerted to potential discrepancies in claims that usually result in dollars recovered for the State. During the course of focusing on dispute resolution with manufacturers, Katie realized that there were large overpayments made to pharmacies that were never caught and recouped by the State. It was readily apparent that with a better and more flexible software system, the division could evaluate disputes more effectively and could actually begin saving the State money through analyzing pharmacy claims and recouping overpayments made to the pharmacies. Katie reorganized the department and led her employees, Jason, Amanda, Jennifer and Travis to begin the tracking of work flow within the unit as well as documenting the processes. We completely changed the focus of the rebate department to include identification and collection of these overpaid claims in conjunction with the negotiation and collection of outstanding labeler disputes.

During fiscal year 2002 we adopted and modified a rebate program that was developed for Texas, to fit the needs of the Louisiana rebate program. Katie oversaw the development and tailoring of this system to fit the needs of Louisiana. This new Louisiana Pharmaceutical Rebate Information Management System (LAPRIMS) has given the staff the tools necessary to be creative and to take initiative to find ways to save the State money. It has allowed staff to accurately account for all rebate monies, track progress and it has given us tremendous invoicing, querying and reporting capabilities which have aided us in fulfilling the efforts listed above. It has allowed us the ability to perform a great deal of ad hoc analysis for the department as well. The rebate division works as a team together to identify and collect pharmacy overpayments and to negotiate dispute resolution payments for the State. Listed below are some of the ways Katie has

used the LAPRIMS system and directed her employees to use the system to generate revenue and save dollars for the State.

1) Global Claims Review

Global analysis of claims paid to pharmacy providers. Katie discovered very material overpayments had been made and were currently being made to pharmacy providers. Katie and her staff perform uniform overpayment analysis, generate personalized letters to pharmacies using a reporting tool that pulls from our SQL database and overpayment spreadsheets. The pharmacy is then notified that we have calculated an overpayment and will recoup those dollars unless substantiation for the claims is provided within a certain time frame. Each Coordinator has performed multiple claim reviews and recoupments as described above.

2) Dispute Resolution

Disputed payments to the State are created each quarter. Prior to Katie's arrival, little or no dispute resolution had been performed, and disputes existed back to 1991. Katie changed the process to insure that current quarter disputes are fully reviewed and addressed in order to halt the growth of the dispute backlog. This was vital because the longer disputes go unevaluated, the less money the State will eventually receive during resolution negotiations with the manufacturers. In addition, the recovery rate for overpaid claims (that support the rebate invoices mailed to the drug manufacturers) that are discovered goes down, as these claims get older. (i.e. pharmacy can't tell if they stocked a certain NDC or the pharmacies may go out of business or the claims are destroyed.) Therefore, under the prior system not only would the state lose out on the rebate, but also the recovery of the overpaid claim. Under the new system, there is almost a 100% recovery rate on overpaid claims when they are identified during current quarter dispute resolution and claims evaluation. This was a very important switch in focus for the division. Now, our quarterly cycle consists of a review current quarter disputes for approximately 2 months, and then the remaining month is spent systematically working on the dispute backlog by entering into negotiations with drug manufacturers and resolving those disputes.

3) Additional Invoicing (More than 4.5 million generated)

- Rebate staff began invoicing for supplemental rebates August 2002. Initial invoices totaled 2.1 million. Katie worked with the software developers to modify the LAPRIMS program to accommodate invoicing for the new Supplemental Rebate Program.
- Since LAPRIMS implementation, the State now receives more than \$7000 annually by providing claim level detail quarterly to Data Niche Associates. Unisys was providing this data and receiving this payment before.
- Katie has completed development with Unisys of the LAPRIMS module that will allow the State to invoice manufacturers for pharmacy claims dispensed in a physician's office (J-Code claims). The State has never invoiced for this utilization before, and would not have been able to under the old system. We are

set to not only begin invoicing for claims beginning in 2002 Quarter 4, but will invoice for pharmacy utilization on J code claims from 1/1/1998 to 9/30/2002 during November of 2002. The amount invoiced for this retroactive time period totals more than 2 million dollars. We will continue to invoice for J code claims with our regular invoicing cycle, and will evaluate the cost effectiveness of retroactively invoicing for J code claims for 1991 through 1997.

- Rebate staff has discovered 37 NDC's where drug manufacturers were repeatedly underbilled each quarter due to unit conversion issues. When a State unit type differs from the manufacture's unit type a conversion factor is necessary. The LAPRIMS system has allowed us to identify conversion factors that were greater than 1 that were never applied to the invoice items. Some of these underbillings went as far back as to 1991. We have performed the analysis on 22 of the 37 invoice items and have reissued manufacturers for an additional \$495,000 at this time. We will complete conversion error analysis on the remaining 15 invoice items by calendar year end.

4) Cost Avoidance Savings

Much of what we do does not have a calculatable dollar figure readily associated with it, but is considered Cost Avoidance Savings. Some of those items are listed below:

- Timely Claim Review – All Rebate staff evaluates the reasonableness of pharmacy claims submitted to Medicaid each month and routinely contact pharmacies regarding these claims. Prior to July of 2000, providers were rarely called to verify the validity of their pharmacy claims. Since implementing this 'timely' review, rebate staff has noticed a marked decrease in the number of errors being submitted by pharmacies. It is clear that pharmacies are submitting their claims much more carefully, now that they are aware someone is reviewing their submissions, and recouping for overpayments.
- Decimal Edits – Rebate staff have discovered NDC's that are ripe for rounding error. We maintain records of NDC's we have reviewed and recouped due to rounding errors, and periodically submit edits to Unisys on NDCs with high volume or dollar errors due to rounding. This was never done prior to our system development and claims review because no one had ever attached a dollar item associated with this type of rounding error. The edits only allow providers to bill in multiples of the lowest dispensable package size. Having these front end edits in place, is a proactive way to eliminate overpayment to pharmacies in the first place. In May of 2001, we placed front end edits on 5 drugs (13 NDC's). Annual savings based on comparing submissions prior to edits, and then post edits, totaled over \$140,000. On July 1, 2002, a second set of edits were put in place for 58 additional NDC's identified by rebate staff as having high volume and or dollar errors. While it is too soon to perform a detail cost savings analysis on this set of edits, we anticipate similar levels of savings.

- **Rebate Manual Development** – Katie developed and directed documentation of a comprehensive division manual. There was not a manual for the pharmacy rebate function prior to Katie's arrival in 2000. The manual is housed online and is a living document. Uniform procedures were developed, documented and are currently followed by all rebate staff. Following the procedures in this manual results in decreased duplication of efforts, increased and efficient claims recovery and dispute resolution and insures that the division will not suffer during times of staff turnover.

Part Three
Maintenance of Performance

Prior to July of 2000, there were no global reviews testing for overpayments made to LA Pharmacy providers. The department had very limited analysis capabilities due to lack of adequate software and duties were spread out in an inefficient and ineffective way. The primary function of the division was to post all the payments received from drug manufacturers and as time permitted, to attempt dispute resolution with manufacturers. The posting payment function is now performed by student workers. (That labor is very inexpensive compared to a full time auditor's wage.) The new LAPRIMS system (developed in FY 2001 and implemented in FY 2002) allows for student workers to perform this function.)

In summary, prior to FY 2001 (reorganization and new system adoption) there was no formal review of overpaid claims (meaning claims recovery dollars were virtually non-existent) and the dispute resolution was not a formal process and dollars were not tracked. The development and adoption of the new LAPRIMS system along with the management and reorganization of the division has allowed us to logically incorporate pharmacy claim review and pharmacy overpayment and collection into the job duties of the division. Therefore, not only has the division maintained its performance, but it has expanded it. In essence, we have moved the division from operating in a reactive status to operating in a proactive status, which is very exciting for the employees.

We began tracking productivity in FY 2001. We increased the total identified (definitions listed below) by 245% from FY 2001 to FY 2002. For the first three months of FY 2003, we have already identified approximately 2/3 of the entire amount identified for collection in FY 2002. We are using the identified amounts because there is collection lag time (further explanation listed below). FY 2001 is the first year we began tracking and is the only year for which we have closed the collection process. Only 7% of the amount identified was uncollectible (due to closed pharmacies.)

Listed below are our Productivity figures from all staff during the last fiscal years along with definitions of each type of activity.

FISCAL YEAR	Time Period	Identified or Collected	Claims Recovery	Dispute Resolution	Total
2001	7/17/2000 to 6/30/2001	Identified	\$603,486.34	\$655,103.13	\$1,258,589.47
2001	1/1/2001 to 6/30/2001	Collected	\$521,825.47	\$649,043.78	\$1,170,869.25
2002	7/1/2001 to 6/30/2002	Identified	\$1,870,557.75	\$1,204,934.61	\$3,075,492.36
2002	7/1/2001 to 6/30/2002	Collected	\$1,355,062.23	\$971,454.36	\$2,326,516.59
2003	7/1/02 to 9/30/02	Identified	\$845,930.09	\$1,125,819.51	\$1,971,749.60
2003	7/1/02 to 9/30/02	Collected	\$ 511,159.48	\$422,135.00	\$933,294.48
2001 TO PRESENT TOTAL	Total 7/17/2000 to 9/30/02	Identified	\$3,319,974.18	\$2,985,857.25	\$6,305,831.43
2001 TO PRESENT TOTAL	Total 7/17/2000 to 9/30/02	Collected	\$2,388,047.18	\$2,042,633.14	\$4,430,680.32

EXPLANATIONS

Claims Recovery:

Dollar amounts identified under claims recovery are made up of either savings obtained through rebate staff calling a pharmacy and having them reverse and rebill a claim, or through direct recoupments taken from a provider's weekly remittance when they are unable to reverse and rebill a claim billed in error online. Direct recoupments are also performed for overpayments identified during Global reviews of various drugs. These dollars would not have been identified, recovered or collected if not for rebate staff efforts. The majority of pharmacy billing errors are discovered during the course of dispute resolution with drug manufacturers or by monthly claims outlier reports run by rebate staff. Rebate staff logs all their calls for reversals and rebills into the LAPRIMS system and verifies that the reversals have been completed and that dollars have been collected.

Dispute Resolution:

Dollar amounts identified under the dispute resolution section are payments due the State that drug manufacturers have not paid and are disputed. Many have been disputed by manufacturers as far back as 1991. These items are identified and collected by rebate

staff through review, analysis and negotiation with the drug manufacturers. These items would remain uncollected if not for rebate staff efforts. An amount is placed in the identified column upon full review of claim level detail and with reasonable assurance that this money is in fact due the state. Interest is included in this amount. It can take up to a year or more to collect this money from the manufacturer once it is identified. It can take a great deal of effort to encourage the manufacturers to pay disputed dollars.

Uncollectible Dollars

Dollars identified as due to the state but that could not be collected. This occurs when pharmacies that have been overpaid are closed by the time the overpayment is discovered or through negotiations with the labeler in an agreement to settle invoice items. It usually takes no longer than six months to collect most of the claims recovery dollars identified. However, in 2001/2 fiscal year, for example, one provider received a two year payment plan for over a half a million dollars. This would account for the larger difference between the amounts identified and collected. All activity for FY 2001 is closed. No further dollars will be collected. **7% of those dollars identified are uncollectible due to the above reasons.** FY 2002 and 2003 are still open and dollars identified will continue to be collected. **We anticipate a similar unrecoverable percent for these years.**

PROGRAM COST DATA

FY 2001		UNO STAFF COST	UNISYS LAPRIMS PROGRAM DEVELOPMENT COST	TOTAL COST
	QTR 3 2000	\$ 33,009		
	QTR 4 2000	\$ 42,057		
	QTR 1 2001	\$ 34,834		
	QTR 2 2001	\$ 24,867		
	TOTAL FY 2001			\$134,767
FY 2002				
	QTR 3 2001	\$ 43,389	\$ 656,598	
	QTR 4 2001	\$ 52,925		
	QTR 1 2002	\$ 70,369		
	QTR 2 2002	\$ 85,130		
	TOTAL FY 2002	\$ 251,813	\$ 656,598	\$908,411
FY 2002				
	QTR 3 2002	\$ 67,029		

Part Four

Explanation of the Proposed Reward and Its Use

We recommend a reward of supplemental compensation based on the levels of contribution outlined below that support the achievements listed in parts two and three of this proposal:

Employee Name	Title	Date of Hire	General Contribution (Low/ Moderate / High)	Proposed Reward
Katie Landry	Field Operations Supervisor	July 2000	High	\$5000
Jason Ross	Coordinator I	July 2001	Moderate – High	\$3000
Amanda Fornea	Coordinator I	August 2001	Moderate – High	\$3000
Jennifer Meole	Coordinator I	January 2002	Moderate	\$1500
Travis Fabre	Coordinator I	January 2002	Moderate	\$1500